Research Update:

North Marin Water District, CA Series 2026 Water Revenue Bonds Assigned 'AA' Rating

November 13, 2026

Overview

- S&P Global Ratings assigned its 'AA' long-term rating to the North Marin Water District Financing Authority, California's estimated $14 million 2026 water revenue bonds, issued for North Marin Water District.
- The outlook is stable.

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Rationale

Security

Net pledged revenue of the district's water system secures the bonds. The 2026 bond proceeds will be used to finance certain capital improvements to the district's enterprise system. We view the bond provisions as credit neutral. Bond provisions include a rate covenant and additional bonds test set at 1.2x annual debt service. As of June 30, 2026, the district enterprise system does not have any revenue bonds outstanding but has approximately $32.2 million in loans outstanding related to the system.

Credit highlights

The rating reflects our view of the district's very strong all-in debt service coverage (DSC) and very strong liquidity and reserves, supported by proactive operational and financial management, with formalized policies and practices. Partly offsetting these strengths, in our view, are the district's somewhat smaller utility system with rising wholesale costs for imported water and, although very strong, its available reserve levels.

North Marin Water District is in Marin County, approximately 30 miles north of San Francisco. We consider the economic profile extremely strong given the district's very strong income levels, diverse customer base, below-average unemployment rates, and participation in the San Francisco-Oakland-Fremont metropolitan statistical area with access to a robust employment hub. Despite annual rate increases, the water system rates remain affordable, in our opinion.

The district serves roughly 64,000 residents in greater Novato and about 1,800 residents in west Marin County. The district's water enterprise system consists of Novato Water, Novato Recycled Water, West Marin Water, and Oceana Marin Sewer. Operationally, the district maintains 386

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miles of pipeline, 2,910 hydrants, and 40 million gallons of stored water, and serves approximately 100 square miles. The water system imports 80% of its water supply from Sonoma Water that flows through the North Marin Aqueduct. Its local supply includes Stafford Lake, two recycled water plants, and the West Marin Wells. The wholesale water cost charges through the district's agreement with Sonoma Water are passed through to tier 1 commercial and residential customers. Marin Municipal Water District (MMWD) is also a wholesale customer to Sonoma Water, and MMWD pays North Marin Water District approximately $205,320 annually through 2032 for its share of the aqueduct replacement. North Marin Water District also maintains long-term agreements with Novato Sanitary District and Las Gallinas Valley Sanitary District to provide recycled water at cost to the district. North Marin Water District's 10-year billed consumption average was about 7,089 acre-feet (af). The 2025 Urban Water Management Plan identifies approximately 16,239 af of water supply through 2050, which is more than twice the historical average consumption. The projected water supplies meet demand under normal, single-dry, and five-year drought conditions through 2050.

The district's fiscal 2027-2031 capital improvement plan (CIP) focuses primarily on system renewal and reliability instead of capacity expansion. The CIP totals approximately $47.8 million over the next five years, with $14 million to be funded with the 2026 bond proceeds and the remainder with a portion of annual net system revenue, cash on hand, grants, and future borrowing. The district's water system available cash reserves have decreased annually since fiscal 2022 to about $9.9 million, or 140 days' cash, for unaudited fiscal 2026 due to planned spend down on capital needs. The 2026 bond issuance will use $3 million to reimburse the district's available reserves, bringing its total to $12.9 million, or about 183 days' cash. Going forward, the district is projecting to improve its days' cash and available reserves while addressing its five-year CIP.

The water system's financial performance has trended strongly during the past five fiscal years with positive operating results. Based on the district's audited financial results, total all-in DSC (comprising senior and subordinate debt) remained well above the district's 1.2x rate covenant but declined from 2x all-in DSC in 2022 because of a planned spend down of cash reserves for capital improvements. Unaudited fiscal 2026 results show all-in DSC increasing to at least 1.6x. The district could conduct another multiyear rate study in 2028 for Novato Water and recycled water, if needed. Somewhat supporting the positive operating results was the district board's adoption of a three-year annual rate increase of 6% for fiscal years 2025 through 2027, following a 2024 rate study. In addition, the district anticipates a June 2027 hearing to adopt a one-year 4% rate increase plus a pass-through, whereby its customers will pay applicable fees associated with the district's water supplier. If adopted, operating revenues could increase 15% in fiscal 2028 and potentially yield all-in DSC above 2x. We note that our all-in DSC calculation includes a fixed take or pay charge annually, which is approximately 14% of Sonoma County Water Agency's total annual debt service.

The rating further reflects our view of the water system's:

- Affordable service rates in the context of the service area's very strong income metrics with median household effective buying income at 139% of the U.S. and a 4.6% county unemployment rate;
- Manageable debt and liabilities, with debt to capitalization increasing to approximately 28.3% with this issuance from 22.4% (audited fiscal 2025) and total on-balance-sheet debt to about $52.3 million from $38.3 million (audited fiscal 2025);

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- Annually updated comprehensive five-year CIP that will address the current debt issuance and net system revenue that was incorporated in recent rate increases and pass-through of water supply fees to its customers;
- Operating and financial procedures that we view as good among peers, include more than sufficient water supply for its customers, and cybersecurity measures that are in line with those of peers;
- Very strong financial metrics maintained in the past five years, with all-in DSC above 1x in recent years and that could strengthen above 2x in fiscal 2028 given projected increasing net revenues while maintaining days' cash and available reserves; and
- Elevated environmental risk related to increasing wildfire and drought risk in California, though management attests that the service area has not been affected in recent years. There are portions of the service area in tier 2 and 3 wildfire risk zones. We understand that the district mitigates these risks with its local hazard mitigation plan that identifies vulnerabilities and such are addressed through its CIP.

Outlook

The stable outlook reflects our view of the district's proactive management that has implemented rate studies in recent years with approved rate increases to support its CIP, maintain balanced-to-positive operations, and improve cash on hand. We expect that the district will maintain its very strong liquidity and reserve position and its all-in DSC over the next two years given the recent rate studies and its track record of positive operating results.

Downside scenario

We could lower the rating if the district is unable to manage capital needs and draws down liquidity, given higher-than-expected spending on its CIP, or if the district requires more debt to fund capital needs, thus pressuring all-in DSC.

Upside scenario

We could raise the rating if the district's all-in DSC, days' cash, and available reserves materially strengthen to levels that are comparable with those of higher-rated peers that we believe are sustainable while managing its capital needs.

North Marin Water District, California--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (AA)
Economic data					
MHHEBI of the service area as % of the U.S.	139.0				113.0
Unemployment rate (%)	4.6				3.7
Poverty rate (%)	9.9				10.1
Water rate (6,000 gallons or actual) ($)	106.1				
Sewer rate (6,000 gallons or actual) ($)	0.0				
Annual utility bill as % of MHHEBI	1.3				1.1
Operational management assessment	Good				Good

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North Marin Water District, California--economic and financial data

		Fiscal year-end			
	Most recent	2025	2024	2023	Median (AA)
Financial data					
Total operating revenues ($000s)		32,432	30,210	26,267	26,885
Total operating expenses less depreciation ($000s)		26,261	21,609	19,343	17,184
Net revenues available for debt service ($000s)		6,171	8,601	6,924	7,755
Debt service ($000s)		4,489	4,487	4,484	2,963
S&P Global Ratings-adjusted all-in DSC (x)		1.3	1.8	1.5	2.5
Unrestricted cash ($000s)		13,174	17,168	19,523	27,366
Days' cash of operating expenses		183	290	368	649
Total on-balance-sheet debt ($000s)		38,267	41,742	45,133	33,014
Debt-to-capitalization ratio (%)		22.4	24.3	26.3	25.6
Financial management assessment	Good	--	--	--	Good

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Ratings List	
New Issue Ratings	
US$14,000,000 North Marin Water District Financing Authority, California, Water Revenue Bonds, (North Marin Water District), Series 2026, dated: December 16, 2026, due: December 1, 2041	
Long Term Rating	AA/Stable
New Rating	
Water & Sewer	
North Marin Wtr Dist, CA Water System Revenues	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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